Talk File

Carlton Seminar -
4/14/66

Central banking function
Process of evolution -
Pendulum swing -
two intervals of the U. S. Bank -
fear of restraints - fear of centralization
Sophistication grew.
Judicial edifice on which the Fed stands was being erected -
McCulloch vs Maryland { Bank dependent upon commerce (notes) Bank not chartered in state. McCulloch was cashier
Greenback cases
Panic of 1907 the business community reacted - Citizens League
Political background - 1912-13 - change of administration -
F.R.S. became a reality. No judicial challenge - No major statutory revision until 1935 - & then mainly to give legislative approval of administrative evolution.
This administrative evolution is entirely typical of most of our examples of public law where the process of accommodation to environmental changes is so subtle - and essential to continuity, of orderly public process - as the evolution of an organic species. And there are mutations - sudden abrupt accidental changes that are sheer serendipity in terms of survival - that enable a social organism to survive. In the Fed R S story the history of the open market instrument is such a mutation. It was not contemplated by the framers of the Act who saw the System as a defensive mechanism in the monetary world with two weapons - the discount window where distressed banks could receive addtl credit, and the reserve requirement. Only recently in its history has the System become dynamic rather than defensive - and this has been accomplished by an evolutionary reactive

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response to a rapidly changing world — but the law is still the same -

This gives the horrors to the planners who would force the economic and social world into a super Linnaean system with everything in its place, humming in a b^b or $c^\#$ as dictated by its place in a well ordered world -

The FRS is a different monetary mechanism in 1966 than it was in 1965 — after all no one emerges from a confrontation with the biggest kid on the block without physical & psychic marks to show -

An inquiry into the environment in which policy process ~~the~~ takes place ~~is in order~~ — is in order.

Political world -

S & L's - structure of banking industry -

Fiscal policy -

Rest of the world -

Emotional climate

Demand is necessary

FOMC itself -

Informed gassy + numbers produces a directive -

color tone and feel

Direction of System -

Reserve use } other countries

Discount window }

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